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ABSTRACT

This module, one of six on teaching consumer matters to low-income groups, focuses on buying insurance. Topics include life insurance (language, types, settlement options), auto insurance, health insurance (standard, health maintenance organizations, medicaid, medicare), tenant's insurance (property damage, liability), what to do in case of loss, how to shop for insurance, workshops, and free information. (CT)

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AN INSURANCE PLANNER

Teaching Low-Income Consumers About Insurance

By

Mary Ann Shurtz, Project Director

Ann Becker LeFlore, Consumer Education Specialist and Author

CE 029 046

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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Office of Consumer Affairs
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I. INTRODUCTION

Insurance is financial protection that people buy through a contract with an insurance company. The agreement in the contract is that the company will reimburse the person buying the insurance for losses caused by specific perils or contingencies named in the contract. The person buying the insurance pays a specified amount of money for this protection.

Insurance is available in varying forms and in varying amounts. People buy insurance in case their cars are damaged, their homes burned, or their belongings stolen. They buy insurance to cover the costs of an illness or a funeral, and to cover their financial obligations in case they die. People can buy insurance to protect themselves in case someone is hurt on their property, or in case they inadvertently damage someone else's property. People also buy insurance as an investment.

Most people who work purchase some insurance, particularly health insurance and life insurance, through their employers. Insurance companies employ insurance agents whose job it is to describe various kinds of insurance plans and help their customers choose the appropriate plan.

The most common types of insurance carried by low-income people are life insurance and burial insurance. Many poor people who otherwise can scarcely make ends meet financially are very willing to pay high monthly premiums for the knowledge that they "will not have to be buried by the state". Unfortunately, these monthly premiums usually add up to an amount far greater than the value of the insurance policy they are buying. The same amount of money saved or invested more carefully might result in a much greater benefit for the people it is intended to protect.

People's values are an important influence on their decisions about insurance. It is wise to help consumers clarify their values as they choose their insurance policies. If a very poor person is determined to buy life insurance to provide for his or her family, it is important to help that person make the best possible choice of protection. Clarifying what the person expects an insurance policy to do will help clarify the best way for the person to spend money for insurance.

In this booklet, we will describe several different kinds of insurance, with particular emphasis on the kinds of insurance most frequently purchased by poor people. In addition to discussing kinds of insurance, we will discuss methods for presenting this information to low-income people. Because many people whose primary clientele are low-income consumers do not have enough time to work in depth on a one-to-one basis, we will emphasize methods for working with groups of people.

"Your insurance company says they don't cover acts of God or acts of stupidity."

GRIN AND BEAR IT by Litchy and Wagner
(c) 1980 Field Enterprises, Inc.
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II. LIFE INSURANCE

The first consideration in any purchase of life insurance is the purpose of the insurance. People buy life insurance policies for two major reasons. The first reason is to provide financial security for their families in the event of their death. The second reason is to build a cash value as an investment to protect against emergencies, to pay for education, or to provide for retirement.

In this section, we will review the different kinds of life insurance plans and settlement options, and will discuss how to determine the amount of life insurance a family needs. We will pay particular attention to the financial and emotional needs of a low-income family, and the difficulties poor families have in choosing reasonably-priced life insurance policies.

A. Why Low-Income People Buy Life Insurance

Most people who buy life insurance do so so that if the major bread-winner in the family dies, his or her survivors can maintain their lifestyle without serious financial problems. A life insurance policy, then, should be large enough to pay the medical costs of a major illness (which are not covered by health insurance), to pay burial expenses, and to provide the survivors with a comfortable income, at least for the years in which there are young children in the family.

For low-income consumers on welfare, it is questionable as to whether or not a life insurance policy to protect survivors is a wise purchase. People on welfare usually can have their medical and burial expenses paid by the state. And it is likely that the children of a welfare recipient would continue to receive benefits if the recipient died.

Low-income consumers who are not on welfare may have an actual need for life insurance to protect their survivors. The same factors that affect a person at any income level influence a low-income person who does not receive welfare benefits: it is desirable to

provide in some way for the economic well-being of the survivors of a loved one.

An investment to provide for future economic needs may be a good idea for low-income consumers. Life insurance is one way to make such an investment. What must be considered is whether or not the life insurance purchased as an investment is actually worthwhile. As we will see, poor consumers are particularly vulnerable people when faced with unscrupulous insurance agents willing to sell high cost policies of little worth.

There are two other important factors which influence poor people in their decisions about life insurance. The first is pride. Many low-income people do not want to be "buried by the state", so they purchase a life insurance policy which will cover their burial expenses. In some instances, it may be possible to influence a person to spend the income paid for this kind of insurance more wisely. But in many cases, the desire for life insurance may be so great that a more beneficial use of time would be to help a person choose the best kind of insurance for the money.

The second major factor which influences poor people who buy life insurance can be the insurance agents who sell the policies. For most purchasers of life insurance, the primary source of information about insurance policies is the person selling the policies. Most people, poor and otherwise, do not take the time necessary to study insurance carefully before buying it, even though the purchase may represent thousands of dollars. Consequently, it is easy for a low-income, poorly-educated person to buy an expensive and not very useful life insurance policy, particularly if the insurance agent is unscrupulous. One common practice of industrial insurance agents is to offer to collect in person when a payment is due. This convenience for the consumer may sometimes be a high-pressure tactic resulting in a substantial portion of each welfare check paying for over-priced insurance policies instead of groceries. Again, close examination of the choices available for insurance and careful decisions about which policy to buy are necessary.

B. The Language of Life Insurance

1. Policy. The actual insurance document which describes the various aspects of the insurance plan is called the policy.

2. Premium. The payments a person makes to an insurance company are called premiums. Premiums may be paid weekly, bi-weekly, monthly, quarterly, semi-annually, or annually. The more often premiums are paid, the higher the total cost of the insurance will be, because paperwork costs increase. Budgeting a monthly insurance payment may be a reasonable compromise for a low-income person who has trouble paying large annual amounts, but who wants to avoid the higher cost of paying weekly.

3. Insured. The person whose life is insured by the policy is the insured.

4. Owner. The person who purchases the insurance policy is the owner. The owner is usually the person insured by the policy.

5. Face Amount. The amount of protection, that is, the amount of money that will be paid when the insured dies, is the policy's face amount.

6. Beneficiary. The person who receives the face amount when the insured dies is the beneficiary.

7. Participating and Non-Participating Insurance Policies. Participating insurance policies are those in which owners of policies are also partial owners of the insurance company. Participating policies usually pay dividends to their owners. Although participating policies usually have higher premiums than non-participating policies, the dividend usually makes their actual cost lower.

Non-participating policies usually have lower premiums. Because they do not pay dividends, the actual costs of premiums for non-participating policies remain the same. Some people consider this an advantage, because they know precisely what the actual cost of their insurance will be. Others consider fixed costs a disadvantage, because with participating policies there is a good chance that the returned dividends will reduce the actual cost.

8. Cash Value. The amount of money which an insurance policy would be worth if the owner surrendered it is its cash value. This amount is calculated by the amount of premiums that have been paid plus any interest or dividends that have accumulated. The cash value of a policy is usually less than the face value of the policy.

9. Rider. A rider is a modification of an insurance policy. It is a document or form which contains special provisions not contained within the policy, such as exclusions or additional benefits.

C. Types of Life Insurance

The type of life insurance a family chooses depends on the family's needs from a life insurance policy and on the family's income available for life insurance. In working with low-income consumers who want life insurance, talk extensively about their reasons for wanting insurance. If you can help clients clarify their own needs and expectations from an insurance policy, you have made an important step in helping them choose the best policy for the money they can spend.

1. Term Insurance. Term insurance is most often used as a way to provide benefits to the beneficiary of the insured person; it usually does not build any cash value. By paying a set premium, the insured person is assuring that his or her survivors will receive a fixed amount of money if he or she dies.

Term insurance is usually purchased for a term of one or five years. This means that the owner of the policy pays the same premium each year for the duration of the policy. At the end of the term, the policy ends. Premiums are lower when the insured person is young and higher when the person is older, because the chances of a person dying (and the company having to pay benefits) increase as the person grows older.

With term insurance, it is possible, and advisable, to buy a renewable policy. This important feature allows you to buy more insurance when the policy expires. The cost will increase when the new policy is purchased. It also is possible to buy term insurance which allows you to convert to whole life insurance at the end of the term, if you choose.

Term insurance has one major advantage: it is inexpensive. It is an excellent buy for people with little money who have a decreasing need for life insurance. Although it usually does not contain any savings element, and the premiums increase every time the policy is renewed, term insurance is less expensive than any other kind of life insurance for people up to age fifty.

2. Whole Life Insurance. Whole life insurance is also called straight life or ordinary life insurance. Whole life insurance combines life insurance protection with savings. The premiums for whole life insurance are higher than those for the same amount of protection with term insurance, because the whole life policy is building a cash value.

The premiums for a whole life insurance remain the same from the time you take out the policy until it is paid up, when you reach age 99. In the early years of the policy, the amount of savings you have built up is small, and the amount of protection you have is great. As you continue the policy into old age, your savings become greater, and approach the actual amount of protection you receive. The face value of the policy remains the same. However, if you die young, most of the face value paid to your beneficiaries is protection from the company. If you die old,

most of the face value is from your own savings.

There are several advantages of whole life insurance. A whole life insurance policy serves as a form of forced savings. Although the interest earned on the savings is less than you could obtain through a bank, this type of insurance plan does provide the discipline which some people need to save regularly. It is also possible to borrow money at a low interest rate from the cash value of your whole life insurance policy. This can be an excellent source of consumer credit, particularly as interest rates rise. The only problem with borrowing against the cash value of a whole life insurance policy is that the face value of the policy, that is, the amount your survivors would receive if you die, is decreased by the amount of the loan until the loan is repaid. The cash value is also decreased by the amount of the loan, so that if you decided to cash in the policy before paying back the loan, you would receive the cash value minus the loan and interest.

3. Industrial Life Insurance. Industrial, or debit, insurance originated in nineteenth century England. It was sold mainly to industrial workers who were thought to need the discipline of paying insurance premiums at the same time they received their weekly paychecks. Now industrial insurance is a form of life insurance which is sold primarily door-to-door in the southern and eastern parts of the United States, usually to poor and minority consumers.

The Federal Trade Commission published a report on industrial insurance in January, 1979, stating that people who buy industrial insurance frequently pay exorbitant prices for little coverage, and that misrepresentation of this particular kind of insurance is widespread. Reports of very low-income consumers paying as much as half of their take-home pay for a large number of industrial insurance policies are not uncommon.

There are several ways in which industrial insurance is misrepresented to potential buyers. One is by the agent simply not answering questions the buyer asks about the insurance policy.

Giving vague answers or changing the subject keeps potential buyers unclear as to the amount of coverage they receive and the actual cost. It also prevents them from comparing the policy with others.

A second form of misrepresentation is advising people which policy to buy while implying that the investment from the policy is greater than it actually is. An example cited in the FTC report involves the purchase of life insurance as an investment for the education of the buyer's children. Taking out a life insurance policy on a young child can be one form of forced savings for the child. However, purchasers of industrial insurance are often led to believe that the face value of the life insurance is the amount they will receive when the child is eighteen. They find out after they have committed themselves to the plan that the face value is only received if the child dies, and the cash value is far less than what they expected. An equal amount of money deposited in a savings account may well produce a higher return.

A third form of misrepresentation involves the cost of the premium. As stated earlier, the more frequently premiums are paid, the higher the total cost of the insurance policy is. Some sellers of industrial insurance calculate the cost of premiums as if the buyer paid weekly, but then only actually collect twice a month. In some instances, welfare recipients have reported insurance agents offering to cash their welfare checks for them, which guarantees that the insurance premiums are paid.

Some insurance companies feel that the FTC report is exaggerated. Others argue that, while industrial insurance may be higher priced than other kinds of insurance, it does provide some life insurance coverage to people who would have none otherwise. However, the argument that having some high-priced life insurance is better than having no life insurance whatsoever should be questioned. As an investment, it is important to compare the cash value of an insurance policy with the amount of savings plus interest which would accumulate if the money for premiums were deposited in a savings account. And as insurance

protection, many low-income consumers pay more in premiums than their survivors would ever receive in benefits. In addition, workers' families would receive some Social Security benefits upon the worker's death which may well exceed the amount of life insurance the worker could afford.

Another problem for low-income people who buy industrial insurance occurs if they let the policy lapse. They then receive nothing, and in fact lose all the premiums that have been paid.

4. Other Kinds of Life Insurance. There are many variations of the life insurance policies described above which are too numerous to discuss here. Each policy must be considered and evaluated in terms of what the purchaser and the insured want to provide for their survivors. Endowment insurance, credit life insurance, and burial insurance are three additional types of life insurance protection.

(a) Endowment Insurance. Endowment insurance emphasizes the savings element of life insurance. The cash value builds up quickly over a specified period of time, usually twenty to thirty years. Monthly payments for endowment insurance are very high compared with other kinds of insurance.

(b) Credit Life Insurance. Credit life insurance is a kind of life insurance with a very specific purpose. Some creditors offer credit life insurance with a loan. With credit life insurance, the person who has the loan pays an extra fee which protects his or her survivors from having to assume the loan in the event of his or her death before the loan is repaid.

Credit life insurance is not mandatory. Think very carefully before taking out a credit life insurance policy with a loan. Consider whether or not other life insurance policies already owned would be adequate to cover the debt. Also consider

whether or not the survivor would be able to handle the debt alone. For example, if a loan which will last three years is taken out by a married man whose wife also holds a good job, she may well be able to take over the payments on the loan should he die. Credit life insurance would probably not be necessary for this couple, and would only increase the cost of the loan. If, however, the couple has three very young children, the woman does not have a job or a profession, and the loan is quite large, credit life insurance might be advisable. The insurance would protect the wife from having to take over the large debt should her husband die.

Often you are asked to sign a waiver if you do not want credit life insurance. Think carefully before you make your decision. Do not feel pressured either to take the insurance or to sign the waiver. Decide based on your own needs and circumstances.

(c) Burial Insurance. Some consumers like to buy a small insurance policy to cover the costs of their funerals. Funerals today may cost between one and two thousand dollars. However, in many cases, Social Security or the welfare department will pay a substantial portion of the cost of a funeral. Therefore, it would be wise to investigate a burial insurance policy very closely before purchasing it. Another way to prepare for a funeral might be to set aside money in a savings account, or to purchase enough life insurance to cover funeral costs.

D. Settlement Options

When the person who is insured by a life insurance policy dies, the person's beneficiary is faced with the decision of how to collect the insurance proceeds. The face amount of the life insurance policy can be paid to the beneficiary in one of several ways.

1. Lump Sum Option. Under this option, the beneficiary of a life insurance policy receives the face amount of the policy all at once. This option would be a good choice for someone who has a good, steady income, and who is a good saver. This person might continue to live on his or her own income, and could either invest the life insurance benefit or use it for a special purchase.

2. Interest Option. Under this choice, the life insurance income is left with the insurance company to earn interest until it is needed at a later date. This option might be selected by someone with a steady income who did not need the insurance money immediately. However, the beneficiary should study other methods for investing the money, as it probably would be possible to earn higher interest elsewhere.

3. Installment Options. Installment options provide a way for the beneficiary to have a specified income each month from the life insurance policy. An installment option would be a good choice for someone who did not have a steady income, or who was not good at saving money.

The form of payment of an installment option might be a specific payment per month until the money ran out, or a specific payment each month for a specified number of years.

Another form of an installment option is purchasing an annuity. To purchase an annuity, the person reinvests the money from the insurance policy in a plan which guarantees an annual income beginning at a certain age and continuing for the rest of the person's life. There are several kinds of annuities, and it would be important to review them before making an investment.

E. Working With Clients

A good way to maximize your use of time is to hold a group session with several clients for one or two hours. In addition to using your time well, this method permits

clients to share their own experiences, and to learn from one another.

1. Deciding Whether or Not to Buy Life Insurance. Start your discussion by asking the group: "Why would you buy life insurance? What would be your purpose in owning a life insurance policy? What do you expect to get from life insurance?" Listen carefully to the answers, and write them on a blackboard. Look for any pattern in the answers. Are most members of your group interested in protecting their survivors, or is the majority looking for some kind of investment? Perhaps the reasons are mixed, or not clear. Try to help your clients pinpoint precisely what they want to accomplish by purchasing life insurance. It is only by knowing their purposes that you can help evaluate the alternatives.

If the major purpose of buying life insurance is as a financial protection to the person's survivors, then discuss what resources the survivors would have if the person died. Would they be eligible for Social Security or welfare? If survivors would receive high enough Social Security benefits to maintain their standard of living, buying a life insurance policy may not be worthwhile, particularly if their current living expenses are extremely tight. If Social Security would not be adequate, or if the survivors would have to depend on welfare, it may be worthwhile to alter the budget to include life insurance protection. To do so might allow the survivors to avoid becoming dependent on welfare.

If a client is interested in life insurance, but has no dependents, question closely the person's reasons for wanting life insurance. Taking money from an already tight budget when no one would need the financial benefits of life insurance may not be a wise decision.

If the main purpose of buying life insurance is as an investment, talk about the purpose of the investment. Is the client trying to save for a child's education, or hoping to buy a house one day? As discussed above, purchasing life insurance solely as an investment may not be the wisest way to save money. Monthly premiums

for whole life insurance may be high, and if the client misses payments, the policy could lapse, defeating its own purpose. And as an investment, life insurance offers a low return. However, you may work with clients who cannot discipline themselves to make a regular deposit in a savings account, but who would pay regularly for insurance. In this situation, a life insurance policy may be a good choice. If the amount of money the person is spending for insurance is relatively small, the difference in interest between a life insurance policy and a savings account might be negligible.

If a client wants to accomplish both purposes, that is, if a client wants both insurance protection and savings, a whole life insurance policy can be the best alternative. The monthly premiums will be higher than for a comparable amount of term insurance coverage, but a small savings will begin to accumulate. Having a disciplined form of savings may help the client learn to plan more carefully for the future, a skill which is well worth developing.

2. Deciding How Much Life Insurance to Buy. As stated earlier, if life insurance is purchased for the sole purpose of protecting the insured's survivors, then the insurance policy should be large enough to pay any medical costs related to the insured person s death which would not be covered by health insurance, to pay funeral expenses, and to provide the survivors with a comfortable income at least until the youngest child is eighteen.

(a) Calculating Needs. Calculating this amount need not be complex. If the insured person is on welfare or Medicaid, or has a comprehensive health insurance policy, medical expenses will be very low or nonexistent. If there is no medical coverage, final medical costs could be as high as five to ten thousand dollars.

Funeral expenses may be as high as two thousand dollars, but can be much lower if the family buys a simple casket or has the

body cremated. Both welfare and Social Security may contribute to these costs, and the person who is considering buying insurance can find how much the family can expect from these benefits.

Providing for the long-range living expenses of the survivors will represent the greatest portion of insurance needs. Ideally, insurance should provide a lifetime income for the surviving spouse. However, many people choose to provide an income only until the youngest child is able to be self-supporting, based on the assumption that the surviving spouse would also become self-supporting. Examine the current monthly expenses, and reduce them by 10% to 20%, allowing for the fact that the insured person's expenses will no longer exist. Multiply that monthly amount by the number of months until the youngest child is eighteen, and that is the amount of money for living expenses the survivors will need.

Next, consider any large educational expenses which would be incurred if any of the survivors would plan to attend technical school or college after high school.

Add together these four amounts: final medical expenses, funeral expenses, living expenses, and educational expenses. This sum is the total amount of money the survivors would need if the insured person died. Ask your insurance agent for advice on adjusting this amount to account for inflation.

(b) Calculating Assets. Next, consider any assets, or potential sources of income the family would have. If the family owns a house and would sell it if the insured person died, the equity in the house can be considered an asset. If they would continue to live in the house, it is not an asset. Any savings accounts can also be considered assets.

The largest source of income for most poor people would be any monthly Social Security benefits which survivors would receive if the insured person has worked. The person's employer or the local Social Security office should be able to help you estimate how much income to expect in Social Security benefits.

Add together all sources of income: equity in a house that would be sold, savings accounts, and expected Social Security income. This sum is the total amount of financial resources available to the survivors if the insured person died.

Finally, subtract the amount of resources from the total amount needed by the survivors. The difference is the amount of life insurance the survivors would need.

(c) An Example of How to Calculate Life Insurance Needs. Here is an example: Jean and John Jones have two children, aged nine and seven. John brings home $150.00 per week, and Jean brings home $50.00 per week from her part-time job. Their total monthly income, then, is $150.00 + $50.00 x 4, or $800.00. Reducing that amount by 20%, they determine that Jean and the children would need $640.00 per month to live on if John died. Subtract from that Jane's take-home pay of $200.00 per month, and they still need $440.00 more per month, for 132 months (until their younger child is 18), or $58,080.00. John has excellent health insurance through his job, but wants to allow $1,500.00 for funeral expenses. They would also like to provide $8,000 for each of the children for educational expenses. Their total need for coverage, then, is $58,080 + $1,500 + $8,000 + $8,000, or $75,580. John finds out that Social Security benefits will pay $300 per month while both children are under 18, and then $200 per month until the younger child reaches 18, or a total of $37,200. Jean and John subtract $37,200 from $75,580, and determine that they need about $38,000 worth of life insurance coverage.

AN EXAMPLE OF HOW TO CALCULATE LIFE INSURANCE NEEDS

Here is the example in figures. Please note that the numbers used are just an example. The expenses and assets of each family are individual, and can vary greatly. Use this example to help your clients learn the process of calculating insurance needs, but be sure to use individualized expenses for each client who wants to buy life insurance.

CALCULATING EXPENSES

A) NEED $800 PER MONTH (BASED ON FAMILY'S BUDGET)

B) REDUCE EXPENSES BY 20%:
$800 X 20% = $160. $800 - $160 = $640.

C) SUBTRACT JEAN'S MONTHLY INCOME:
$640 - $200 = $440 = ADDITIONAL MONTHLY INCOME NEEDED.

D) FIGURE NUMBER OF MONTHS UNTIL YOUNGER CHILD IS 18:
18 - 7 = 11 YEARS UNTIL YOUNGER CHILD IS 18
11 X 12 = 132 MONTHS UNTIL YOUNGER CHILD IS 18.

E) CALCULATE LIVING EXPENSES UNTIL YOUNGER CHILD IS 18:
$640 PER MONTH X 132 MONTHS = $58,080 NEEDED FOR LIVING EXPENSES.

F) ADD ALL EXPENSES TOGETHER:

$58,080	NEEDED FOR LIVING EXPENSES
1,500	NEEDED FOR FUNERAL EXPENSES
16,000	NEEDED FOR EDUCATIONAL EXPENSES FOR BOTH CHILDREN
$75,580	NEEDED TO PROTECT FAMILY IF JOHN DIES

CALCULATING ASSETS

IN THIS CASE, SOCIAL SECURITY BENEFITS ARE THE ONLY ASSETS

A) CALCULATE SOCIAL SECURITY BENEFITS WHILE BOTH CHILDREN ARE UNDER 18:
JOHN FINDS OUT FROM SOCIAL SECURITY OFFICE THAT JEAN WOULD RECEIVE $300 PER MONTH WHILE BOTH CHILDREN ARE UNDER 18.
18 - 9 = 9 YEARS UNTIL OLDER CHILD IS 18.
9 X 12 = 108 MONTHS UNTIL OLDER CHILD IS 18.
$300 PER MONTH X 108 MONTHS = $32,400 IN SOCIAL SECURITY BENEFITS UNTIL OLDER CHILD IS 18.

CALCULATING ASSETS (CONTINUED)

B) CALCULATE SOCIAL SECURITY BENEFITS FOR REMAINING TWO YEARS UNTIL YOUNGER CHILD IS 18:
JOHN FINDS OUT FROM SOCIAL SECURITY OFFICE THAT JEAN WOULD RECEIVE $200 PER MONTH WHILE SECOND CHILD IS UNDER 18.
2 X 12 = 24 MONTHS UNTIL YOUNGER CHILD IS 18.
$200 PER MONTH X 24 MONTHS = $4,800 IN SOCIAL SECURITY BENEFITS UNTIL YOUNGER CHILD IS 18.

C) ADD ALL ASSETS TOGETHER:

$32,400	SOCIAL SECURITY UNTIL OLDER CHILD IS 18
+ 4,800	SOCIAL SECURITY UNTIL YOUNGER CHILD IS 18
$37,200	TOTAL ASSETS IN SOCIAL SECURITY BENEFITS

DETERMINING INSURANCE NEEDS

$75,580	NEEDED TO PROTECT FAMILY IF JOHN DIES
- 37,200	TOTAL ASSETS
$38,380	TOTAL AMOUNT OF LIFE INSURANCE PROTECTION JEAN AND JOHN NEED ON JOHN'S LIFE

Present an example like this to your group. If possible, use actual incomes and assets of people in the group. Review the steps carefully, being sure that your clients understand the process. Remember, this example is intended only to demonstrate one way to calculate life insurance needs. Individual families may have special needs not described in the example. In addition, it may be desirable to allow for inflation when purchasing life insurance. An insurance agent should be able to advise you as to how to account for inflation.

3. Choosing Between Term and Whole Life Insurance. The decision as to which kind of insurance to buy depends primarily on the purpose of the insurance. As stated earlier, for purposes of protection only, you can buy much more term insurance than whole life insurance for each dollar you spend. Jean and John Doe would have to pay as much as one thousand dollars per year for an adequate amount of whole life insurance protection. The same amount of term insurance could be purchased for closer to $300 per year. Term insurance is obviously the better buy, if protection is the only consideration. If a consumer has only $25 per month to pay for insurance, it is better to buy adequate term protection than an inadequate amount of whole life protection.

An argument in favor of whole life insurance for very low-income consumers is that it is a forced savings account. While people with more money to invest than a very poor person would consider life insurance a poor investment, for a low-income person who would not save otherwise, it may make sense. The difference in interest on a savings account and a whole life insurance policy may represent so little in actual dollars for a person spending a small amount of money that the discipline in making a regular payment is worth the small loss. The decision depends on the family's needs.

4. Deciding About Policies Already Owned. Suppose that you are working with a client who already has life insurance, but is having trouble meeting the payments, or is not adequately insured. What advice can you give?

After you determine the amount of coverage a client needs, examine all the policies the person owns closely to see which of them are worthwhile. Look for duplicate coverage, or riders that may not be necessary (such as triple indemnity if the insured person dies in an airplane crash). See if any of the policies can be converted to better policies, or if any of the coverage can be combined.

In general, letting a life insurance policy

lapse, or surrendering it in the first seven years can represent a substantial loss to the owner of the policy. If you are working with a low-income consumer whose budget is completely over-extended, however, and you see that a large percentage of the person's income is allocated for life insurance policies, it may be necessary to surrender or cancel some of the policies, even if this means some loss. Try to help the person keep the best policy (that is, the one with the best terms at the lowest price), and evaluate each of the others carefully.

Above all, educate your clients against buying life insurance on a whim. Any contract for insurance should be studied carefully. Nothing should be signed the day it is first presented. Good deals are always available, and are well worth searching for carefully.

III. AUTOMOBILE INSURANCE

People purchase automobile insurance to protect against financial losses which occur because of a car accident. If you cause an accident, you may be held financially responsible for the expenses incurred by others in the accident for medical care, repair or replacement of their car, or damage to their property. And even if you do not cause the accident, you may need resources to pay your own medical expenses, to repair your car, or to compensate you for time lost from your job.

Automobile insurance provides protection against these losses. By paying an annual premium for automobile insurance, you are protecting yourself against the possibility of total financial disaster, should you become involved in an automobile accident.

A. Virginia's Requirements

1. Who Must Buy Auto Insurance. Virginia's financial responsibility law requires that drivers demonstrate their ability to assume financial responsibility for losses resulting from a car accident by: a) depositing securities or a bond with the State Division of Motor Vehicles, b) paying an annual uninsured motor vehicle fee of $150 per vehicle, or c) buying automobile insurance with certain required, minimum coverage.

Depositing securities or paying the uninsured motor vehicle fee does not protect your assets from any claims which may be made against you. In other words, if you cause an accident which results in financial losses for the other person in the accident, you can be held financially responsible for those losses. Your home, your possessions, and your wages can all be used to help pay for the losses.

The third alternative, auto insurance, provides another way to pay those losses. A good auto insurance policy will keep your own costs relatively low while still compensating the other

person for losses.

2. Specific Requirements. The state of Virginia has minimum requirements for auto insurance for liability for bodily injury, liability for property damage, and for coverage for damage caused by uninsured motorists.

(a) Liability for Bodily Injury. Bodily injury liability insurance protects you against losses to *other people* who are involved in an accident that you cause. It can cover medical expenses, lost wages, pain and suffering, and other losses. This kind of insurance provides protection for you against claims made by other people if you, or a member of your family, or a driver with your consent is driving your car. The minimum amount of bodily injury liability insurance which you must carry will pay up to $25,000 for the losses of one person for each accident. The minimum coverage will pay a total of $50,000 in losses for each accident if more than one person is involved.

(b) Liability for Property Damage. Property damage liability insurance pays for damage to other people's property caused by your auto. It can cover damage to someone else's car, home, or other property. This kind of insurance pays for property damage whether you or another driver with your consent was driving. The minimum amount of property damage liability insurance pays losses up to $10,000.

(c) Protection Against Uninsured Motorists. Uninsured motorist coverage is the only required auto insurance which pays for your own losses. This insurance protects you when you are not at fault and you are injured by a hit-and-run driver, or if the other driver does not have any insurance. The minimum required coverage against uninsured motorists has the same limits as

the minimum liability requirements: $25,000 bodily injury for one person each accident, $50,000 bodily injury total for each accident with more than one person injured, and $10,000 property damage (the property damage is subject to a $200 deductible if the other motorist was not identified).

3. Kinds of Insurance Plans.

(a) Family Auto Policy. An automobile insurance policy which has three separate limits for liability, as described above, is usually called a Family Auto Policy. Insurance companies often use a shorthand notation describing a Family Auto Policy, such as 25/50/10. These numbers refer to the maximum amounts the company will pay for each of the three liabilities under the policy. In other words, a 25/50/10 policy will pay $25,000 for bodily injury, $50,000 per accident injuring more than one person, and $10,000 property liability. These amounts are, of course, the minimum required amounts; it is possible to buy higher limits of coverage if desired.

(b) Special Auto Policy. Some drivers in Virginia may be eligible for auto insurance policies which are called Special Auto Policies. These policies do not have separate limits for the required liability insurance coverage, but instead contain a single limit of at least $60,000 which applies to all bodily injury and property damage liability losses which occur as a result of any one accident. Most companies that sell Special Auto Policies traditionally offer them only to drivers with no accidents or violations. Special Auto Policies can cost ten to twenty percent less than a company's comparable Family Auto Policy.

B. Additional, Optional Coverage

With the exception of uninsured motorist coverage, the required insurance protection only protects you against other people's claims. It does not cover your own expenses if you are at fault, or if no other car is involved in the accident. Fortunately, it is possible to buy insurance which will cover your own losses in an accident.

1. Collision and Comprehensive Coverage. Collision and comprehensive insurance covers damage to your own car, regardless of who is at fault. Collision insurance pays losses that result from your car colliding with another object. Comprehensive insurance pays for damage to your car from most other causes, such as fire, vandalism, or weather conditions. Comprehensive coverage also covers theft.

2. Medical Payments Coverage. Medical payments insurance covers you or your passengers, or someone else driving your car. It pays the medical and funeral expenses which result from an accident in your car, regardless of who is at fault. It also covers you or members of your family if you are struck by a car while walking, or while riding in another car.

3. Supplementary Hospital, Medical and Disability Coverage. Supplementary hospital, medical, and disability insurance covers certain losses for you or your family, or for others riding in your car, which are a result of one accident. This coverage includes reasonable medical and funeral expenses incurred within one year of the accident, up to $2,000 per person, and loss of income up to $100 per week for up to 52 weeks. This insurance coverage pays regardless of who is at fault.

C. Deciding Whether or Not to Buy Automobile Insurance

As stated above, automobile insurance is not mandatory in Virginia. It is possible to pay an annual fee of $150 per car and not buy insurance. This annual fee is far less than what most people would have to pay for even minimal car insurance.

However, to drive an automobile without liability insurance is *extremely* risky. An accident in which there is major damage could result in total financial ruin for the person at fault, if there is not adequate insurance protection. Your home, your assets, and your wages can be taken to pay those damages. Therefore, it is important to emphasize with your clients the risks involved in not carrying insurance, and to encourage them to buy at least the minimum required protection.

Some clients may feel that they can manage to pay the $150 annual fee to the Division of Motor Vehicles, but cannot afford auto insurance. However, a person who would have difficulty paying for insurance would certainly have major problems paying for a large claim by a person injured in a car accident. The risks of loss represent a far greater problem than an annual insurance premium. We will discuss below how to reduce insurance costs.

D. Deciding How Much Insurance to Buy

As stated above, it is advisable for low-income consumers to carry at least the minimum required amount of auto insurance. The annual cost of this basic coverage may be several hundred dollars, depending on the driving record of the person applying, the number of drivers in the household, and the number of miles the car is driven.

Buying collision and comprehensive insurance may be important also. These two types of insurance can be purchased with what is referred to as a deductible amount. The deductible amount is the amount you must pay before the insurance company will make a payment. If, for example, you drive your car into a tree, and the damage to your car is $1,000, and you have $100 deductible collision coverage, the insurance company would pay you $900. The greater the amount your deductible is, the lower your annual premium is. The only caution in increasing your deductible is that, should there be an accident, you would have to pay a higher amount out of your own cash. You should determine how much you could pay before selecting a deductible amount.

Another consideration in buying collision and comprehensive insurance is the value of the car. If you are working with low-income consumers who drive

very old, used cars, you might advise against buying any collision or comprehensive insurance. The cost of the insurance may not be worth the protection of a very old car. As an exercise with your group of low-income clients, go around the group and ask the members who own cars to describe the car. Have a group discussion of whether or not the car is worth insuring with collision and comprehensive insurance. As a variation, write the year and model of several different cars on a piece of paper (for example, a 1980 Mercedes Benz, a 1975 Ford LTD, a 1960 VW), have each client pick a piece of paper, and evaluate whether or not the car should be insured with collision and comprehensive insurance.

Whether or not to buy medical payments coverage depends on the other sources of medical insurance available. If a client has excellent health insurance benefits through his or her employer, or is on welfare which includes substantial medical coverage, this insurance may not be necessary. It is important to review other medical policies carefully, however, before declining this coverage.

The state of Virginia has an open competition insurance rating law. This means that there is no set rate for auto insurance, and companies can charge their own rates. It is generally possible to obtain the cost of an auto insurance policy over the telephone by telling an agent the year and make of the car you want to insure, and any other pertinent facts. By making several telephone calls, you can see which company offers the best price for the insurance you need. As you compare prices, be sure that they are for comparable coverage.

In Virginia, safe drivers may be offered reduced auto insurance rates by some companies. By the same token, drivers who have caused accidents or been convicted of traffic violations may be charged higher rates. However, an insurance company may not, under Virginia law, charge you a higher auto insurance premium as a result of your involvement in an accident in which you were not at fault.

E. Tips for Buying Auto Insurance

Help your clients determine as closely as possible how much insurance they need before they call about

prices. Many companies give lower rates depending on your age, the number of cars and drivers in the household, the number of miles the car is driven to work, the number of miles the car is driven annually, and other factors. Be sure your clients know this information before calling, and be sure they offer any pertinent information which may reduce their rates.

When a client has decided on a policy, be sure he or she reads the policy carefully before signing a contract for it. Be sure that the cost and the dates of payment are understood. Some companies allow consumers to buy car insurance on a payment plan, with a nominal service charge. Such a plan may be very important to a low-income person.

Try acting out a role-play in your group with one person selling and one person buying auto insurance. Be sure that all the important information is communicated, and that the consumer comes away buying what he or she wants, or choosing *not* to buy if the agent does not offer a good deal.

IV. HEALTH INSURANCE

People purchase health insurance to help pay expenses related to health care. These costs can include hospital bills, laboratory tests, x-rays, medicines, surgery, doctor visits, and even compensation for time lost from work. Health insurance plans can contain very little protection, or may pay virtually every expense. They can be obtained through your employer, through a private company, through a health maintenance organization, or through government-subsidized programs.

Very low-income consumers who receive Medicaid benefits probably do not need any additional health insurance. However, people who do not receive Medicaid need to examine closely how they will pay for the medical care that they and their families will need.

The best health care protection is to stay healthy. Eating properly, getting enough rest and exercise, and minimizing worries contribute substantially to good health. Nonetheless, unexpected illnesses or medical problems can strike any family at any time. Low-income consumers tend to have a higher degree of medical problems than their middle- and high-income counterparts. Therefore, it is imperative that poor people protect themselves against the possibility of high medical expenses.

A. Standard Health Insurance Policies

1. Basic Protection. Most basic health insurance protection covers a percentage of your daily room and board, nursing care, and hospital services while you are in the hospital. Basic protection also provides coverage for surgical procedures and for doctors' visits.

The amount of basic protection a policy provides varies with the policy. Some policies pay a set percentage of the standard fee for services in your community. Others pay a set fee for each covered service. In either case, you probably have to pay the balance. The first type of

coverage is usually better than the second type, because the amount of coverage increases as standard costs increase. Insurance with a set fee schedule can become outdated quickly, unless the insurance company routinely reviews and increases its benefits.

Regardless of the way in which the insurance company pays basic protection, it is important to study the policy carefully before purchasing it. Review the payment schedule with your physician to see if the insurance company will pay a good portion of the costs you could incur. Some doctors will not bill more than what the insurance company will pay, however they are allowed to bill for the difference if they choose to.

Examine specific details of the policy closely. Some policies only pay for surgery if it is performed in a hospital; others will cover minor operations performed in your doctor's office. The same is true with doctor visits: some policies will cover only those visits made in a hospital, others will also pay for visits in the office. Some policies only cover doctor checkups when you are ill; others also pay for routine exams.

Look for clauses regarding pre-existing medical conditions. Some policies do not pay for care related to medical problems which you knew you had when you took the policy. Others will not pay for any condition which you had when you took the policy, even if you did not know you had it. Some policies do cover pre-existing conditions, but insurance companies usually will require you to list any conditions on your application in order for those conditions to be covered. There also may be a waiting period before coverage for pre-existing conditions begins.

2. Major Medical. Major medical coverage is designed to pay for expenses not covered by your basic protection. Major medical insurance provides protection, after you or your basic protection has paid a deductible, up to a certain maximum. Major medical plans usually have what is called a co-insurance clause. Co-insurance is the percentage of the bill you must pay, while the insurance company pays the balance.

(a) How Major Medical Pays. As an example, suppose that you have a total hospital bill of $2,000, and that $1,900 of the expenses are covered under your policy. Suppose that your basic protection pays a total of $900, that you have a $200 deductible on your major medical, and that you must pay 20% of the balance under your co-insurance clause. You must pay a total of $460 on this bill, and your insurance company will pay $1,540:

TOTAL BILL:	$2,000	
EXPENSES NOT COVERED:	100	-- YOU PAY
BASIC PROTECTION PAYS:	900	
BALANCE:	1,000	
DEDUCTIBLE:	200	-- YOU PAY
BALANCE:	800	
MAJOR MEDICAL PAYS 80%:	640	
REMAINING 20%:	160	-- YOU PAY

TOTAL YOU PAY = $100 + $200 + $160 = $460.

TOTAL INSURANCE COMPANY PAYS = $900 + $640 = $1,540.

For the same hospitalization, if you have a lower deductible and more coverage, you would have to pay less:

TOTAL BILL:	$2,000	
ALL EXPENSES ARE COVERED		
BASIC PROTECTION PAYS:	1,200	
BALANCE:	800	
DEDUCTIBLE:	50	-- YOU PAY
BALANCE:	750	
MAJOR MEDICAL PAYS 80%:	600	
REMAINING 20%:	150	-- YOU PAY

TOTAL YOU PAY = $50 + $150 = $200.

TOTAL INSURANCE COMPANY PAYS = $1,200 + $600 = $1,800.

Of course, more extensive coverage will cost you more in premiums.

(b) Deductibles. Decide how much deductible to allow in much the same way as you did with car insurance. Ask the question: "How much could I afford to pay in medical costs without placing a great financial hardship on my family budget?" The higher the deductible, the lower your premium will be.

Be sure that your deductible applies to your family as a whole, not to each family member individually. If the deductible applies to each family member, you could have to pay the deductible several times in one year. For example, suppose that in the same year, you break your arm, your daughter is hospitalized for a week with pneumonia, and your son has an appendectomy. If your deductible applies to each family member, you would have to pay the deductible, say $250, three times, for a total of $750. If the deductible applies to the whole family, you would only have to pay $250.

(c) Disability Insurance. Major medical insurance can pay toward the earnings you lose because of a disability. Usually disability income insurance pays a percentage of your gross earnings, such as 50% - 60%. Your policy may have a waiting period before it begins to pay, and may have a very specific definition of "disability". The policy may also have a finite length for its benefit period, ranging from one year to life.

In choosing disability, consider whether or not your employer would pay sick leave for any length of time if you were unable to work. Also find out when Social Security would begin paying you disability benefits if you could not work. Disability insurance should cover the remaining time periods.

3. Waiting Periods. Many health insurance policies have a waiting period before they cover pre-existing conditions or elective medical care. Some companies do not provide maternity benefits immediately. Read the policy closely to determine if it contains waiting periods.

4. Group and Individual Plans. Many people obtain their health insurance through a group plan, often the one offered by the employer. Group health insurance has several benefits. First, it usually has lower premiums than a comparable individual plan, because the administrative costs to the insurance company are reduced since many people are being insured at once. Second, it is often available without a physical exam, and is renewable. Third, the cost is usually reduced further by the fact that employers often pay part or all of the premiums.

However, an individual plan also has some advantages. An individual plan can be tailored to meet the specific needs of you and your family. Individual plans stay with you even if you change jobs, while a group plan only covers you while you keep the job which provides the plan. Some group plans cover you for thirty days after you leave the group, and can be converted to individual plans if you leave the group. The premiums are usually much higher after such a plan is converted.

5. Low-Income People and Health Insurance. Most low-income people who can obtain health insurance through their jobs will probably find the group coverage to be a better deal than an individual plan. If the family has special needs, it may be important to choose supplemental coverage to meet those needs. Caution your low-income clients to read their insurance policies completely. Make sure they pay special attention to items such as maternity benefits, clauses regarding pre-existing medical conditions, and the amount of deductible. Also be sure that they understand what happens to their coverage if they leave their job.

If you hold a group discussion of health insurance, ask people to bring in the policies they own or are considering. Compare the policies and the benefits they pay. Use examples, such as the one above, to show how different policies will pay different amounts for the same illness.

B. Health Maintenance Organizations

Health Maintenance Organizations, or HMOs, are increasing in popularity in the United States. Members of HMOs pay a flat monthly fee, and then are provided with comprehensive medical coverage of all types, including hospital costs, doctors' exams, and lab work, at no additional charge. Many families find that HMOs are more economical plans than standard health insurance. Some insurance companies even manage HMOs in addition to maintaining their standard coverage.

Members of HMOs must go to HMO doctors for care. HMO doctors are usually salaried, in contrast to private doctors, who earn a fee for each visit. Some people object to HMOs because they fear that they will not have consistent care by one doctor, particularly if emergency care were necessary. Others feel that this is not any more of a problem than with a private doctor.

The monthly fee for membership in an HMO varies, but often compares favorably with the fee for health insurance. As of 1973, federal law makes it mandatory for every employer of 25 or more people to offer HMO membership as an option, if an HMO exists in the area.

If there is an HMO in your area, encourage your clients to compare it closely with their health insurance policies. Have them look at the dollar costs of each plan and the services covered by each. They then can choose the alternative that provides the best care at the lowest cost.

C. Medicaid

Medicaid, the Title XIX Medical Assistance Program, began in 1965. It is intended to provide financing for comprehensive medical care for low-income people. The costs of the program are shared by the Federal and State governments.

In Virginia, people qualify for Medicaid in one of two ways. First, people who receive federal Aid to Dependent Children or Supplemental Security Income are called categorically needy, and automatically receive Medicaid benefits. Second, people who can pay their own living expenses but cannot afford their medical costs are called category related-medically needy persons, and must reapply for assistance every six months.

Medicaid provides a wide range of medical coverage at no cost to the recipients, including inpatient hospital services up to fourteen or twenty-one days, outpatient hospital services, nursing home care, family planning services, and health screening exams and dental care for recipients under age 21. In addition, recipients over age 21 can obtain prescriptions at a cost of 50¢ per prescription, and eyeglasses for $2.00.

Medicaid is an excellent source of health insurance coverage. Low-income people who receive Medicaid do not need any other health insurance protection.

D. Medicare

Medicare insurance is provided to people 65 years old and older through the Social Security Office. It is divided into hospital insurance, Part A, and medical insurance, Part B. Because Medicare only pays some of the costs of health care, and does contain deductibles and co-payments, some people also purchase Medicare supplement coverage.

1. Hospital Insurance: Medicare Part A. Medicare Part A is provided automatically, at no charge, to people 65 and older. Medicare Part A pays many of the costs of medically required hospitalization and inpatient care in a skilled nursing facility after hospitalization. Most hospital services are covered under Part A, with the exceptions of private duty nursing, charges for a private room (unless it is medically necessary), and personal items such as a telephone.

Part A pays for all covered services, after a deductible (currently $160), for the first sixty days of inpatient hospital care. For 61 to 90 days, Part A pays for all covered services except for $45 per day. For 91 to 150 days, Part A

pays for all but $90 per day, and after that time pays nothing. These last sixty days are called "lifetime reserve days", and can only be used once in a lifetime.

In a skilled nursing facility, Medicare Part A pays for all covered services for the first 20 days, and for all except $22.50 per day for the next 80 days. Remember, though, that those nursing homes which primarily offer only personal and custodial care are not considered skilled nursing facilities, and are not covered under Medicare.

Medicare Part A also pays the entire cost of up to one hundred medically required home visits after a hospital stay. Part A also covers part-time visiting nurses, physical therapists, and speech therapists from certified home health agencies, following hospitalization.

2. Medical Insurance: Medicare Part B. Medicare Part B is provided by their choice to people 65 and older for a monthly fee which is currently $8.70, a fee which could change annually. It is generally recommended that people purchase Medicare Part B.

Covered under Medicare Part B are physicians' services (except for routine physicals), home health visits even without prior hospitalization, physical and speech therapy, and other medical services and supplies. All services must be medically necessary to be covered.

Medicare Part B has an annual deductible of $60. Part B pays 80% of reasonable charges after the deductible. Remember that "reasonable charges" are determined by Medicare, and could be lower than your doctor's actual fee. Therefore, you could have to pay more than the deductible and twenty percent of the remaining charge. However, some doctors "accept assignment", which means that they accept what Medicare calls a reasonable charge, and will not bill you for more than that amount; you pay only the deductible and twenty percent of the remaining fee. Talk with your doctor in advance about whether or not he or she accepts assignment.

3. Medicare Supplement Insurance. As you can see, Medicare coverage does contain some gaps. Well checkups are not covered, neither are medicines, nursing home care, or extended hospital care. Deductibles and co-payments can leave substantial bills for medical care, even after Medicare pays.

Should you advise clients to purchase Medicare supplement insurance? Unfortunately, there is no set answer. Clients who also qualify for Medicaid do not need supplemental insurance, as Medicaid is comprehensive.

But people who do not receive Medicaid could have large medical bills without supplemental insurance, particularly if they are hospitalized for a long time. Therefore, it may be desirable to purchase a supplemental policy which will pay what Medicare does not.

The two largest gaps in Medicare are the deductibles and the co-payments. The total annual deductible for Parts A and B combined is $220, an amount which some families could probably handle. The co-payments of daily hospital charges after sixty days and 20% of reasonable charges for doctors' fees (plus the balance between Medicare's reasonable charges and the doctor's actual fee, if he or she does not accept assignment) could add up quickly.

If a person decides to buy a Medicare supplement policy, it is important to read the plan carefully. The best kind of plan is one designed specifically to meet the gaps left by Medicare, that is, one which would pay the deductibles and the 20% not covered by Medicare. As with any health insurance policy, look for exclusions or waiting periods. Compare several policies before purchasing one.

Some people argue that a Medicare supplement plan is not really necessary, because most people over 65 are not hospitalized for more than two weeks at a time, and therefore most of their expenses would be covered by Medicare. This argument has validity. Any decision to buy insurance involves weighing both the costs of a major accident or illness and the chances of such an accident or illness occuring. A person who is independently

wealthy does not need any insurance, as he or she could pay the costs of any castrophe, no matter how large. Most people, however, prefer to pay a budgeted monthly amount for insurance so that the bulk of a major loss would be covered by the insurance. These same factors must be considered in deciding whether to buy Medicare supplement insurance.

V. TENANT'S INSURANCE

People who own their homes purchase insurance to protect the house and their personal belongings. People who rent should also purchase insurance to protect against the loss of their personal belongings. In Virginia, many homeowner's and tenant's insurance policies are called "package policies", because they combine property damage protection and liability protection. Because most low-income people do not own their homes, we will only discuss tenant's insurance. If you work with a client who owns a home, contact a reputable insurance agent for information about homeowner's insurance.

A. Property Damage Coverage

It is important to purchase insurance to cover losses of your personal belongings. A variety of unexpected events can occur which result in damage to your personal property. A severe storm can break a window which in turn may damage a table by the window. Faulty plumbing can leak and damage your carpeting. An electrical problem may damage an appliance. While a landlord may not be held responsible for these kinds of problems, many such losses can be covered by tenant's insurance. The policy an individual chooses depends on the type of coverage the person wants and the amount of protection the person needs.

1. Contents Coverage. Contents coverage insures your property for damage resulting from certain causes named in the policy, such as damage from falling objects; the weight of ice, snow and sleet; leaking or overflowing water or steam from plumbing, heating, or air conditioning systems; freezing of plumbing, heating or air conditioning systems; and damage to electrical appliances from short circuits. There may be certain perils which are excluded, so check with your insurance agent as to your precise coverage.

2. Additional Living Expenses. Most tenant's insurance will also pay for any additional reasonable and necessary living expenses incurred if it becomes necessary for you to move out of

your apartment temporarily because of damage caused by a peril covered in your policy. Insurance companies pay only those necessary expenses incurred above and beyond what you would normally pay for living expenses.

3. Deciding How Much Property Damage Coverage to Buy. To determine the amount of property damage insurance you need, walk through your home and list all the items you own, and their values. Most insurance policies will not pay the amount you would need to replace your belongings, but will only pay the actual cash value of the item, which is the current purchase price of the article minus a deduction for age and wear and tear. It is possible to buy a policy that provides replacement costs for your possessions, but it will cost more than insurance which covers the actual cash value of your property.

If you have any possessions which are extremely valuable, such as furs, jewelery, or musical instruments, these items should be listed separately in the insurance policy. Tenant's insurance policies often have limited coverage for such items. You will pay more for this extra coverage, but you also will receive much closer to the actual value of these possessions should you ever have a claim.

B. Liability Coverage

As stated above, most tenant's insurance policies are "package policies", combining protection of your personal property with liability coverage. The liability coverage protects you in the event that a non-family member is injured on your property, or his or her belongings damaged due to your fault. This liability insurance also covers you and your family in some limited circumstances if an accident takes place away from your home. Liability insurance coverage protects you if your child breaks a neighbor's window, if your dog damages a neighbor's property, if a delivery man falls on your steps, or if a friend trips and is injured in your living room.

Liability coverage will usually pay both for the damages caused and for any legal defense you need. Liability coverage does not protect you from something

you do intentionally, or from damage you cause with your car.

The basic limit for liability coverage is $25,000 for each accident. Higher limits can be purchased.

Most liability insurance also provides some medical payments coverage for non-family members. Medical payments coverage pays regardless of who is at fault. Reasonable medical expenses which result from an occurrence in your home could be covered by the medical payments section of your liability within one year from the date of loss. The usual limit is $500 per person and $25,000 per occurrence.

C. Low-Income People and Tenant's Insurance

Low-income consumers would do well to invest in tenant's insurance. Tenant's insurance is relatively inexpensive, and can save a great deal of money in the long run. A leaking plumbing system can easily cause hundreds of dollars of damage, but for well under fifty dollars per year, an individual can protect $10,000 worth of belongings. Most tenant's insurance policies have a $100 deductible, although in some areas the deductible for theft is higher.

If you discuss tenant's insurance with a group of clients, be prepared to review those perils most common in your area. Ask each client to name a loss he or she has had in the last few years, and discuss whether or not the loss would have been covered under tenant's insurance.

If possible, visit one of your client's homes, and walk through, listing all the items in the home. See if the client can provide receipts for the major items. Keeping receipts is an easy way to keep track of the value of different possessions. Total the value of the client's belongings, including clothes, furniture, appliances, carpeting, drapes, linens, and all other items which should be protected. Determine the amount of insurance the tenant needs. If you can, take along a camera to photograph the rooms. Should the person ever have a claim, the photographs will help identify the lost or damaged articles.

Review the different losses covered by liability insurance and medical payments. Offer several examples,

and discuss whether or not they would be covered, and why or why not.

VI. WHAT TO DO IF A LOSS OCCURS

Any time a loss which you believe is covered by one of your insurance policies takes place, you should contact your insurance company immediately. It is important to keep a record of all insurance policies and companies in several different places. One list should be kept in your home, but this should not be the only list, because if your home were destroyed in a fire, you would no longer have your record. Similarly, while it is important to keep the name and telephone number of your auto insurance company in your car, you should also keep this information elsewhere, in case you cannot get the information from your car after an accident. A safe deposit box is a good place to keep all insurance policies and information.

When you call your insurance agent after a loss, give a precise account of the occurrence. The agent will provide you with any necessary forms to complete, and will inform you of any other action you should take. The agent should be able to tell you how long it will take for your claim to be processed and your benefit paid. If you pay for any repairs yourself, keep an accurate record of your payments, documented by receipts and invoices.

If you ever have a problem with an insurance company, or do not feel that a company has handled a claim fairly, you can contact the Bureau of Insurance of the State Corporation Commission for assistance is resolving the problem.

VII. HOW TO SHOP FOR INSURANCE

Buying insurance is like buying any other consumer product. The steps to take are as follows:

1. Assess your own needs. Decide before you shop what the purpose of the insurance is, how much protection you need, and how much money you can afford to pay.

2. Compare. Meet with several different insurance agents to discuss your needs and see their products. Ask for sample policies to read on your own, and for the premium rates the different companies offer.

3. Think. Read the sample policies carefully. If you do not understand them, ask a relative or friend to explain them to you. Be sure you understand every word of each policy.

4. Take your time. Never sign a policy the first time you see it. A reputable insurance agent will be happy to provide you with information and allow you time to review the information on your own.

5. Be certain that the company which the agent represents is reputable. Find out the company's time frame for processing claims and paying benefits.

6. When you buy insurance, make your payments on time. Be cautious about writing a check payable to the insurance agent. Some consumers have had problems with agents not turning the premium over to the company. Writing a check payable to the insurance company prevents this possibility.

7. Review your insurance policies annually. As time goes by, the needs of you and your family change. Examine your policies each year to be sure that they provide the protection you need.

The four charts on the following pages are designed to help you compare insurance policies. Make enough copies of the charts for your clients to use. By listing information about various policies side-by-side, it is easier to make a comparison.

COMPARING LIFE INSURANCE POLICIES

ITEMS FOR COMPARISON	COMPANY A	COMPANY B	COMPANY C
THE INSURANCE COMPANY			
PROMPTNESS OF PROCESSING CLAIMS			
THE POLICY			
PARTICIPATING OR NON-PARTICIPATING			
TERM OR WHOLE LIFE			
FACE VALUE			
IF TERM,... RENEWABLE OR NONRENEWABLE			
CONVERTIBLE OR NON-CONVERTIBLE			
IF WHOLE LIFE,... CASH VALUE AT FIVE YEAR INTERVALS			
INTEREST RATE			
RIDERS, IF ANY			
THE TOTAL COST			
ANNUAL PREMIUM			
QUARTERLY PREMIUM			
MONTHLY PREMIUM			

COMPARING AUTOMOBILE INSURANCE POLICIES

ITEMS FOR COMPARISON	COMPANY A	COMPANY B	COMPANY C
THE INSURANCE COMPANY			
PROMPTNESS OF PROCESSING CLAIMS			
AMOUNT OF COVERAGE			
REQUIRED			
LIABILITY FOR BODILY INJURY			
LIABILITY FOR PROPERTY DAMAGE			
PROTECTION AGAINST UNINSURED MOTORISTS			
OPTIONAL			
COLLISION -DEDUCTIBLE			
COMPREHENSIVE -DEDUCTIBLE			
MEDICAL PAYMENTS			
SUPPLEMENTARY			
THE TOTAL COST			
ANNUAL PREMIUM (IF AVAILABLE)			
SIX MONTH PREMIUM			
MONTHLY PREMIUM			
PREMIUM PAYMENT PLAN			

COMPARING HEALTH INSURANCE POLICIES

ITEMS FOR COMPARISON	COMPANY A	COMPANY B	COMPANY C
THE INSURANCE COMPANY			
PROMPTNESS OF PROCESSING CLAIMS			
THE POLICY			
BASIC PROTECTION			
COVERED SERVICES			
NON-COVERED SERVICES			
PAYMENT SCHEDULE			
MAJOR MEDICAL			
DEDUCTIBLE			
CO-PAYMENTS			
DISABILITY			
GROUP OR INDIVIDUAL			
IF GROUP,...			
CONVERTIBLE TO INDIVIDUAL POLICY			
SPECIFIC SUPPLEMENTS AVAILABLE IF NECESSARY			
THE TOTAL COST			
ANNUAL PREMIUM			
QUARTERLY PREMIUM			
MONTHLY PREMIUM			

COMPARING TENANT'S INSURANCE POLICIES

ITEMS FOR COMPARISON	COMPANY A	COMPANY B	COMPANY C
THE INSURANCE COMPANY			
PROMPTNESS OF PROCESSING CLAIMS			
THE POLICY			
PROPERTY DAMAGE COVERAGE CONTENTS COVERAGE			
ADDITIONAL LIVING EXPENSES			
LIABILITY COVERAGE LIMITS			
MEDICAL PAYMENTS			
THE TOTAL COST			
ANNUAL PREMIUM			
QUARTERLY PREMIUM			
MONTHLY PREMIUM			

VIII. A SERIES OF WORKSHOPS FOR LOW-INCOME CONSUMERS

As most of you know from your experience, a deliberate process of education is a preferable method of teaching to trying to correct past errors. Although much of your work with low-income consumers will of necessity be crisis-intervention, a carefully-planned series of workshops may help prevent some serious problems before they occur.

Plan to hold a series of three to six workshops on a weekly basis. Keep the day, time, and location of the workshops the same, if possible. Address the problems of transportation and child care well in advance, perhaps with the assistance of volunteers.

Each workshop can last from one to three hours. Longer workshops should have a break in the middle. Write important points on a blackboard, and prepare handouts covering these points. Use copies of the charts in this booklet if they are helpful, or design your own.

Here is a sample workshop schedule:

Workshop 1: Life Insurance: Do You Need It?
Discuss the purposes of life insurance, whether or not clients need it, and how much they should buy.

Workshop 2: Life Insurance: Choosing a Policy
Discuss term and whole life insurance, and compare sample policies.

Workshop 3: Automobile Insurance
Review the minimum requirements in Virginia, and discuss how to compare policies.

Workshop 4: Health Insurance
Review different policies and protection. Pay special attention to deductibles, co-insurance, pre-existing conditions, and maternity benefits. (This workshop may not be necessary if all your clients receive Medicaid. If you have many clients who receive Medicare but not Medicaid, you may focus specifically on Medicare supplement insurance.)

Workshop 5: Tenant's Insurance
Review choices of coverage and costs.
Discuss damage and losses covered under different policies.

Note that the Virginia Office of Consumer Affairs has many audio-visual aids available on a free-loan basis for your use. See page 50 of this booklet for a list of those materials related to insurance, or contact VOCA for a complete list.

IX. RELATED MATERIALS AVAILABLE ON A FREE-LOAN BASIS FROM THE VIRGINIA OFFICE OF CONSUMER AFFAIRS

TITLE	TOPIC
16mm FILM:	
Insurance: What You Should Know	*auto and property insurance*
FILMSTRIP:	
Buying Health Care	*shopping for health care and insurance*
SLIDE-TAPE:	
Planning for Health Care and Health Care Costs	*tips on health care*
VIDEOCASSETTES:	
Consumer Education for Senior Citizens:	
Investments, Insurance and Inflation	*investments and insurance*
Medicare/Medicaid	*Medicare and Medicaid services*

X. OTHER SOURCES OF RELATED INFORMATION AND ASSISTANCE

CONSUMER AFFAIRS OFFICES

State Offices	
Main Office, Richmond	800 552-9963 (toll-free) 804 786-2042 (local)
Northern Virginia Branch, Fairfax	703 573-1286
Local Offices	
Alexandria Office of Consumer Affairs	703 750-6675
Arlington County Office of Consumer Affairs	703 558-2142
Fairfax County Department of Consumer Affairs	703 691-3214
Newport News Office of Consumer Affairs	804 247-8616
Norfolk Division of Consumer Protection	804 441-2821
Prince William County Office of Consumer Affairs	703 221-4156
Roanoke Consumer Protection Division	703 981-2583
Virginia Beach Consumer Protection Office	804 427-4421

LOCAL INSURANCE AGENTS AND COMPANIES

LOCAL LIBRARIES

MONEY BOOK, by Sylvia Porter
advice on various financial matters

STATE CORPORATION COMMISSION	
Bureau of Insurance	800 552-9760 (toll-free) 804 786-3741 (local)